

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

ST. CLAIR HOUSING COMMISSION

Financial Statements

December 31, 2003

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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***John C. DiPiero, P.C.***

Certified Public Accountant

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Tel / Fax (989) 642-2092

Board of Commissioners  
St. Clair Housing Commission  
400 South Third Street  
St. Clair, Michigan 48079

**Independent Auditor's Opinion**

I have audited the financial statements listed in the Table of Contents of the St. Clair Housing Commission as of and for the year ended December 31, 2003. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the St. Clair Housing Commission as of December 31, 2003, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as whole.

In accordance with Government Auditing Standards, I have also issued my report dated August 16, 2004 on my consideration of the St. Clair Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Certified Public Accountant

August 16, 2004

ST. CLAIR HOUSING COMMISSION

Combined Balance Sheet  
December 31, 2003

ASSETS

C-3068

CURRENT ASSETS

Cash	\$	70,870	
Accounts Receivable-Other		2,956	
Investments		177,418	
Prepaid Expenses & Other Assets		3,108	
Interprogram- Due from		<u>16,000</u>	
Total Current Assets	\$		270,352

NON CURRENT ASSETS

Land	\$	30,000	
Buildings & Improvements		898,980	
Furniture, Equipment- Dwellings		39,418	
Furniture, Equipment- Administrative		29,497	
Leasehold Improvements		478,361	
Accumulated Depreciation		<u>(952,094)</u>	
Total Non Current Assets			<u>524,162</u>

TOTAL ASSETS \$ 794,514

Combined Balance Sheet  
December 31, 2003

LIABILITIES & EQUITY

C-3068

LIABILITIES:

CURRENT LIABILITIES

Accounts Payable	\$	6,327
Accrued Liabilities		54,937
Accrued Compensated Absences		3,423
Tenants Security Deposit		11,632
Other Current Liabilities		7,110
Interprogram- Due to		<u>16,000</u>
<u>Total Current Liabilities</u>	\$	99,429

NONCURRENT LIABILITIES

Accrued Compensated Absences		<u>10,270</u>
<u>Total Liabilities</u>	\$	109,699

EQUITY:

Contributed Capital	\$	517,644
Retained Earnings		<u>167,171</u>
<u>Total Equity</u>		<u>684,815</u>

TOTAL LIABILITIES & EQUITY \$ 794,514

The Accompanying Footnotes are an Integral Part of the Financial Statements

Combined Statement of Income and Expenses  
For the year ended December 31, 2003

REVENUE

Tenant Rental Revenue	\$ 152,740
Tenant Revenue- Other	930
HUD Grants	283,396
Interest Income	4,681
Other Income	<u>3,553</u>

<u>Total Revenue</u>	\$ 445,300
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EXPENSES

Administrative	\$ 65,581
Tenant Services	2,698
Utility Expenses	45,180
Ordinary Maintenance	100,482
General Expenses	<u>53,945</u>

<u>Total Expenses</u>	<u>267,886</u>
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<u>Excess (Deficiency) of Revenues over Expenses</u>	\$ 177,414
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OTHER DEDUCTIONS

Housing Assistance Payments	\$ 139,755
Extra Ordinary Maintenance	8,360
Depreciation Expenses	<u>54,671</u>

<u>Total Other Deductions</u>	<u>202,786</u>
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<u>NET PROFIT (LOSS)</u>	\$ <u>(25,372)</u>
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The Accompanying Footnotes are an Integral Part of the Financial Statements

Combined Statement of Cash Flows  
For the Year Ended December 31, 2003

Business Type Activities

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from Customers	\$	152,740
Payments to Suppliers		(399,021)
Payments to Employees		(86,834)
HUD Grants		283,396
Other Receipts (Payments)		<u>8,234</u>
Net Cash Provided (Used) by Operating Activities	\$	(41,485)

**CASH FLOWS FROM CAPITAL AND  
RELATED FINANCING ACTIVITIES**

Purchases of Capital Assets	\$	<u>(2,954)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$	(44,439)
Balance- Beginning of Year		<u>115,309</u>
Balance- End of Year	\$	<u>70,870</u>

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET  
CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Net Profit or (Loss)	\$	(25,372)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation		54,671
Changes in Assets (Increase) Decrease:		
Receivables (Gross)		(1,391)
Investments		(77,418)
Prepaid Expenses		(76)
Interfund Due From		(500)
Changes in Liabilities Increase (Decrease):		
Accounts Payable		(442)
Accrued Liabilities		44,100
Accrued Compensated Absences		(35,511)
Security Deposits		(343)
Other Current Liabilities		297
Interfund Due To		<u>500</u>
Net Cash Provided by Operating Activities	\$	<u>(41,485)</u>

The Accompanying Notes are an Integral part of the Financial Statements



Combined Statement of Changes in Fund Balance  
For the Year Ended December 31, 2003

Contributed Capital

Balance at Beginning of Year	\$ 570,642
Depreciation Add Back	<u>(52,998)</u>
Contributed Capital- End of Year	\$ <u>517,644</u>

Retained Earnings

Balance at Beginning of Year	\$ 139,490
Depreciation Add Back	52,998
Prior Period Adjustment:	
Increase in Funding, Section 8 Program	55
Net Income (Loss)	<u>(25,372)</u>
Retained Earnings- End of Year	\$ <u>167,171</u>

The Accompanying Footnotes are an Integral Part of the Financial Statements

Notes to Financial Statements  
December 31, 2003

NOTE 1: Summary of Significant Accounting Policies

**Reporting Entity-**

St. Clair Housing Commission, St. Clair, Michigan, (Commission) was created by ordinance of the city of St. Clair. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 59-1	Low rent program	62 units
MI 28-E052	Section 8 Existing	30 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, there are no component units.

These criteria were considered in determining the reporting entity.

**Basis of Presentation-**

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

## **Proprietary Funds**

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

### **Basis of Accounting-**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989.

### **Budgetary data-**

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

### **Assets, Liabilities, and Net Assets-**

#### **Deposits & Investments**

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

### Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

### Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and undesignated fund balance components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-10 years

### Compensated Absences

Compensated absences are for unused vacation days, personal leave days, and accumulated compensation time, based on total accumulation of time at current rates of compensation. Financial Accounting Standards Board (FASB) # 43 establishes proper generally accepted accounting principles (GAAP) concerning such accruals. The following criteria must be met:

- 1) Employee's right to compensation is attributable to past performance.
- 2) The right to compensation is vested or accumulates.
- 3) It is probable that the compensation will be paid.
- 4) The amount is reasonably estimable.

The Commission accrued a percentage of the above based on an analysis of past retirements and current potential using the above criteria.

The estimated portion of the liability for vested leave benefits attributable to the Commission is recorded as an expenditure and liability in each of the respective programs.

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 19,887
Savings Accounts	50,883
Petty Cash	<u>100</u>
Financial Statement Total	\$ <u>70,870</u>

Investments:

Treasury Notes	\$ <u>177,418</u>
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Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying</u>	<u>Market</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Cash:					
Checking A/C's	\$ 19,887	\$	\$	\$ 19,887	\$ 19,887
Petty Cash	100			100	100
Money Market	<u>50,883</u>	<u></u>	<u></u>	<u>50,883</u>	<u>50,883</u>
Total Cash	\$ <u>70,870</u>	\$ <u></u>	\$ <u></u>	\$ <u>70,870</u>	\$ <u>70,870</u>
Investments:					
Treasury Bills	\$ <u>177,418</u>	\$ <u></u>	\$ <u></u>	\$ <u>177,418</u>	\$ <u>177,418</u>

Note 3: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 30,000	\$	\$	\$ 30,000
Buildings	898,980			898,980
Furniture & Equipment-Dwellings	39,418			39,418
Furniture & Equipment-Admin	27,623	2,954	1,080	29,497
Leasehold Improvements	<u>478,361</u>	<u></u>	<u></u>	<u>478,361</u>
	\$ 1,474,382	\$ 2,954	\$ 1,080	\$ 1,476,256
Less Accumulated Depreciation	<u>898,503</u>	<u>54,671</u>	<u>1,080</u>	<u>952,094</u>
	\$ <u>575,879</u>	\$ <u>(51,717)</u>	\$ <u></u>	\$ <u>524,162</u>

Note 4: Accrued Liabilities.

Accrued liabilities consists of the following:

Accrued Wages and Benefits	\$ <u>54,937</u>
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Note 5: Pension Plan

The Commission participates in a pension plan, the Municipal Employees' Retirement System, (MERS). MERS is a Defined Benefit Program which operates within the Michigan Department of Management and Budget, Bureau of Retirement Systems. The pension covers all full time employees and requires a minimum contributions by the employee. Statistical information concerning the plan can be obtained from MERS, which is contained in their annual report.

Note 6: HUD Guaranteed Debt and Contributed Capital.

HUD guaranteed debt has been reclassified to Contributed Capital for all years ending after December 31, 1998. The reclassification is a result of all HUD programs converting from a basis of accounting prescribed by HUD other than Generally Accepted Accounting Principles (GAAP), to GAAP.

Original contributed capital consists of reserved and unreserved surplus, and cumulative HUD contributions; in subsequent years, contributed capital is increased by additional capital contributions, and reduced by current year depreciation expense.

Note 7 :Segment Information for Enterprise Funds.

The Commission maintains an enterprise fund; segment information for the year ended December 30, 2003, is as follows:

Operating Revenue	\$ 445,300
operating Income	177,647
Non Operating Revenue (Expenses)	
Extra Ordinary Maintenance	(8,360)
Depreciation Expense	(54,671)
Housing Assistance Payments	(139,755)
Net Profit (Loss)	(25,372)
Non Current Assets (net)	524,162
Total Assets	794,514
Retained Earnings	167,171

Note 8 :Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 3,500,000
General Liability	1,000,000
Dishonest Employees	1,000,000
Worker's Compensation and other riders:	
Coverage's required by the State of Michigan	

Note 9: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 10:Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Report on Compliance Based on an Audit  
of Financial Statements Performed in  
Accordance with Government Auditing Standards  
December 31, 2003

I have audited the financial statements of St. Clair Housing Commission as of and for the year ended December 31, 2003, and have issued my report dated August 16, 2004. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As a part of obtaining reasonable assurance about whether St. Clair Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, I do not express such an opinion. However, the results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards; refer to the section on findings and questioned cost.

Internal Control over Financial Reporting

In planning and performing my audit, I considered St. Clair Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The result of the audit did not reveal any reportable conditions in Financial Reporting.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

August 16, 2004



Status of Prior Audit Findings  
December 31, 2003

The prior audit of the St. Clair Housing Commission for the period ended December 31, 2002, did not contained any audit findings or questioned cost.

Schedule of Findings and Questioned Cost  
December 31, 2003

Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing		X
Housing Assistance Program		X
Capital Fund Projects		X

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted	_____ Yes	_____ X _____ No
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Reportable condition(s) noted	_____ Yes	_____ X _____ No
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Non Compliance material to financial statements noted	_____ Yes	_____ X _____ No
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Report on compliance for Federal programs-

Qualified

Material weakness(es) noted	_____ Yes	_____ X _____ No
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Reportable condition(s) noted	_____ X _____ Yes	_____ _____ No
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Non Compliance material to financial statements noted	_____ Yes	_____ X _____ No
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Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Public Housing	No	None	03-1
Housing Assistance Program	No	None	None
Capital Fund Project	No	None	None

December 31, 2003

The following finding of the St. Clair Housing Commission, for the year ended December 31, 2003, was discussed with the Director, Ms. Lorena Loren, in an exit interview conducted August 16, 2004.

Finding 03-1: Tenant Accounting Discrepancies

A test of the Low Rent Public Housing files revealed the Rent Election form was not in the files. The re-examinations, 50058, did indicate the choice made, but there is no signed form in the files.

Recommendation

The Commission appears to be giving the tenants the choice as the 50058 form indicates the election made, however, HUD now requires the tenant sign a form annually making the election.

I recommend the Commission obtain a signed rent election form with the next round of re-examinations.

Reply

I am a new Director. I was not aware that this form was required. The prior Director did not include this form in her files.

I did create a "Rent Election Form", along with an explanation sheet. I passed out these forms to all of our residents. Each resident chose either the 30% or flat rent, signed and dated this form, and returned the form back to my office. I checked over each form, and filed these forms in their file. All 62 have been completed.